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FM AMEMBASSY HARARE
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INFO SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
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C O N F I D E N T I A L SECTION 01 OF 04 HARARE 002684

SIPDIS

STATE FOR AF, AF/S, AF/EPS, EB/IFD/ODF, EB/TPP/ODC
TREASURY FOR ED BARBER AND GRACE SONE
USDOC FOR 2037/ERIC HENDERSON
STATE PASS USTR/RWHITTAKER
NSC FOR SENIOR AFRICA DIRECTOR GAYLE SMITH

E.O. 12958: DECL: 05/18/10

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SUBJECT: BEHIND THE POLITICAL CONFLAGRATION, ZIMBABWE'S ECONOMY IS
BURNING TOO

REF: HARARE 2081

CLASSIFIED BY ECON/COMM OFFICER MARK PROKOP, REASONS
1.5 (B), (D).

SUMMARY

1. (C) WHILE RECENT ATTENTION, NOTABLY OUTSIDE ZIMBABWE, HAS
FOCUSED ON THE POLITICAL VIOLENCE OCCURRING HERE, CONCURRENTLY A
SERIOUSLY DETERIORATING ECONOMY IS BEING PUSHED RAPIDLY DOWNHILL BY
THE ACTIONS AND INACTIONS OF A NEAR-TOTALLY DISTRACTED SENIOR
LEADERSHIP. THE LARGEST AND MOST SERIOUS THREATS CAN BE DIVIDED
INTO TWO MAJOR CATEGORIES: 1) LAND INVASIONS AND THREATENED LAND
SEIZURES AIMED AT THE COMMERCIAL FARMING SECTOR; AND 2) FUEL AND
HARD CURRENCY SHORTAGES WHICH CRIPPLE THE INDUSTRIAL PRODUCTION OF
MANUFACTURERS ALREADY FIGHTING FOR SURVIVAL IN AN EXTREMELY HOSTILE
OPERATING ENVIRONMENT. THESE TWO SECTORS UNDERPIN THE FORMAL
ECONOMY, AND THE SERIOUS DAMAGE BEING DONE TO THEM WILL HAVE
NEGATIVE CONSEQUENCES NOT ONLY THIS YEAR BUT IN YEARS TO COME,
THOUGH NO ONE IN LEADERSHIP SEEMS TO CARE. THIS IS CERTAIN
REGARDLESS OF HOW GOOD OR BAD THE ELECTION PROCESS, RESULTS AND
IMMEDIATE AFTERMATH ARE.

12. (C) IN ADDITION, IT IS SIMPLY TOO EARLY AT THIS TIME TO MAKE ANY
PREDICTIONS, BACKED UP BY CONFIDENCE, ON ZIMBABWE'S POST-ELECTION
ECONOMY. TO DO SO REQUIRES TWO CRITICAL INPUTS. DOES THE MUGABE
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GOVERNMENT CURTAIL, CONTINUE OR EXPAND ITS USE OF VIOLENCE AND
LAWLESS BEHAVIOR IN THE RUN-UP TO THE ELECTIONS AND AFTER THE VOTE?
AND SECOND, WHAT WILL BE THE ECONOMIC POLICIES AND COMMITMENT LEVEL
OF THE POST-ELECTION GOVERNMENT? IT IS CLEAR THAT THIS YEAR'S
ECONOMY IS SUBSTANTIALLY WORSE THAN LAST YEAR'S, AND EVEN IF THE
GOVERNMENT RENEWS ITS RELATIONSHIP WITH THE INTERNATIONAL FINANCIAL
INSTITUTIONS, HARD CURRENCY AND INVESTMENT WILL ONLY BEGIN FLOWING
THE FIRST QUARTER OF 2001. END SUMMARY.

THE LAND IS EVERYTHING!

13. (C) THIS RULING PARTY CAMPAIGN SLOGAN ("LAND IS THE ECONOMY &
THE ECONOMY IS THE LAND") CONTAINS, AT LEAST FROM THE PERSPECTIVE OF
ZIMBABWE'S ECONOMIC HEALTH, MORE TRUTH THAN THE PARTY'S EX-SOCIALIST
LEADERSHIP PROBABLY REALIZES. COMMERCIAL AGRICULTURE ACCOUNTS
DIRECTLY FOR APPROXIMATELY 20 PERCENT OF ZIMBABWE'S GROSS DOMESTIC
PRODUCT (GDP), AND INDIRECTLY FOR ANOTHER 12 TO 15 PERCENT
(COMPRISED OF EMPLOYEE WAGE SPENDING, TRANSPORTATION, SUPPLY AND
EQUIPMENT SALES, SERVICES ETC.). IN ADDITION, ABOUT 2 MILLION
PEOPLE (OUT OF A TOTAL POPULATION OF ABOUT 12 MILLION) LIVE ON
COMMERCIAL FARMLAND AND DERIVE THEIR LIVELIHOOD FROM WAGES AND THE
FOOD THEY GROW ON THE FARMS. THE WAGE EARNERS CONSTITUTE ABOUT A
FOURTH OF THE FORMAL LABOR FORCE. FURTHERMORE, THE

INTERRELATIONSHIP BETWEEN FARMING AND INDUSTRY IS VERY CLOSE. ABOUT HALF OF ZIMBABWE'S INDUSTRY IS AGRO-BASED, WHILE THE AGRICULTURAL SECTOR CONSUMES ABOUT 20 PERCENT OF TOTAL INDUSTRIAL OUTPUT. IN OTHER WORDS, AT THE END OF THE DAY, COMMERCIAL FARMING PAYS THE RENT AND KEEPS THE LIGHTS ON IN ZIMBABWE. DESTROY IT, AND THE COUNTRY COULD SINK LIKE A STONE. DAMAGE IT, SAY BY TAKING AWAY 10 TO 40

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PERCENT OF ITS ACREAGE AND OUTPUT AND, AT LEAST IN THE NEAR TERM, THE ECONOMY WILL SUFFER COMMENSURATELY.

14. (C) THE CURRENT LAND INVASION (OVER A 1000 FARMS OF APPROXIMATELY 4400 HAVE BEEN AFFECTED) AND THE THREAT OF SEIZURE WITHOUT COMPENSATION HAS MANY IMMEDIATE AND NEAR TERM NEGATIVE EFFECTS. FOR BANKS AND OTHER CREDIT-SUPPLIERS, THE COLLATERAL VALUE OF LAND AND IMPROVEMENTS HAS CLEARLY FALLEN, MAKING LENDING DIFFICULT. UNCERTAINTY OVER THE ABILITY TO PREPARE FOR AND PLANT NEXT SEASON'S CROP MAKES LENDING ON A CASH-FLOW BASIS OVERLY RISKY. INDEED, EVEN FOR THAT VERY SMALL MINORITY OF FARMERS WHO DO NOT NEED THIRD-PARTY FUNDING TO OPERATE, THE INCENTIVE TO INVEST IN PRODUCING A CROP WHICH MAY WELL BE STOLEN (PERHAPS ALONG WITH THE LAND AND ALL IMPROVEMENTS), IS DEMOTIVATING, AT THE VERY LEAST. FOR EXAMPLE, THIS YEAR'S WHEAT CROP PLANTING, WHICH SHOULD BE TAKING PLACE NOW, IS DOWN 30 TO 40 PERCENT FROM LAST YEAR WHICH MEANS THAT ZIMBABWE WILL HAVE TO IMPORT MUCH HIGHER AMOUNTS OF WHEAT IF BREAD IS GOING TO BE AVAILABLE. WHERE THE FOREIGN EXCHANGE IS GOING TO COME FROM TO PAY FOR THE INCREASED IMPORTS IS ANYBODY'S GUESS. ONE PIECE OF GOOD NEWS IS THAT DESPITE DISRUPTIONS OF HARVESTING AND GRADING CAUSED BY THE INVADERS, ABOVE-AVERAGE RAINS AND GOOD CONDITIONS HAVE RESULTED IN A TOBACCO (AS WELL AS MAIZE) CROP THAT SHOULD EXCEED LAST YEAR'S IN VOLUME (ABOUT 230 MILLION KILOGRAMS VERSUS 210 LAST YEAR). THIS OPTIMISTIC PROJECTION IS TEMPERED, HOWEVER, BY SO FAR WEAK INTERNATIONAL PRICES AND THE FACT THAT THE LACK OF A DEVALUATION HAS MEANT THAT PROFIT MARGINS FOR MOST GROWERS WILL BE

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SUBJECT: BEHIND THE POLITICAL CONFLAGRATION, ZIMBABWE'S ECONOMY IS BURNING TOO

MARGINAL OR NIL. (THE OUTLOOK FOR TOBACCO SELLING SEASON SALES WILL BE REPORTED SHORTLY SEPTEL.)

15. (C) THE NEGATIVE EFFECTS OF A SERIOUS DISRUPTION TO COMMERCIAL FARMING INCLUDE:

-- A WORSENING OF THE HARD CURRENCY SHORTAGE, AS EXPORT EARNINGS DECLINE WITH ALL THE ATTENDANT NEGATIVE CONSEQUENCES (FOR EXAMPLE, FUEL AND ELECTRICITY SHORTAGES, MOUNTING EXTERNAL DEBT ARREARS, INABILITY TO IMPORT NEEDED INPUTS);

-- INCREASED UNEMPLOYMENT AS FARM WORKERS ARE LAID OFF AND SIMULTANEOUSLY EJECTED FROM FARM HOUSING (BESIDES RENT-FREE HOUSING, COMMONLY PROVIDED SERVICES INCLUDE WATER, ELECTRICITY, SEWAGE, BASIC MEDICAL CARE AND SOMETIMES BASIC EDUCATION);

-- INCREASED URBAN MIGRATION TO ALREADY OVERBURDENED CITIES WITH TEEMING UNEMPLOYMENT;

-- INCREASED INDUSTRIAL SLOWDOWN AND BUSINESS CLOSURES;
-- A DETERIORATING SOVEREIGN CREDIT RATING;
-- AND THE POSSIBILITY OF NEAR-UNIVERSAL DISAPPROVAL, POSSIBLE
SANCTIONS AND FUNDING CUTOFFS SHOULD THE GOVERNMENT-SANCTIONED
VIOLENCE ESCALATE, FURTHER WORSENING THE DOWNWARD SPIRAL.

16. (C) WE ALSO POINT OUT THAT ZIMBABWE IS, STATISTICALLY AT LEAST,
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LONG OVERDUE FOR A DROUGHT. THE LAST OCCURRED IN '93/'94, AND THE
GOOD RAINS OF THE LAST FOUR YEARS CANNOT REALISTICALLY BE EXPECTED
OR RELIED UPON FOR UPCOMING GROWING SEASONS. THE NEGATIVE EFFECTS
OF A DROUGHT (WHICH CAN DROP TOTAL AGRICULTURAL PRODUCTION BY 20 TO
40 PERCENT) ON TOP OF HITS CAUSED BY THE LAND INVASIONS AND SEIZURES
COULD CAUSE MASSIVE SHORTAGES. THE COUNTRY, LIKE SO MANY OTHER
AFRICAN ONES, WOULD THEN REQUIRE MASSIVE FOOD AND HUMANITARIAN AID
FLOWS IF WIDESPREAD STARVATION IS TO AVOIDED.

MANUFACTURING AND THE SERVICES SECTOR ALSO UNDER SIEGE

17. (C) MINING AND INDUSTRIAL PRODUCTION CONTINUES TO DECLINE, DUE
TO UNABATED HIGH INTEREST AND INFLATION RATES, THE FUEL SHORTAGE,
AND THE DEBILITATING LACK OF FOREIGN CURRENCY NEEDED TO IMPORT NON-
DOMESTICALLY PRODUCED INPUTS OR EQUIPMENT. IN THE LATTER AREA
STOCKS OF RAW MATERIAL PLUS THE CONTINUED LOYALTY OF EXTERNAL
SUPPLIERS HAVE KEPT THE PRIVATE SECTOR GOING DURING THE FIRST FOUR
MONTHS OF THE YEAR. HOWEVER, THESE RESERVES ARE RUNNING OUT AND
DELIVERIES ARE SLOWING OR HALTING AS THE GOOD WILL RUNS OUT AND HARD
CURRENCY REMAINS UNAVAILABLE. ALSO SOUTH AFRICAN TRADE CREDIT
PROVIDERS AND INSURERS WILL NOT UNDERWRITE RISK TO COVER EXPORTS TO
ZIMBABWE, FURTHER EXACERBATING THE SITUATION. AS THE SHORTAGES HIT,
INDUSTRIAL OUTPUT WILL EXPERIENCE AN ACCELERATED DECLINE. (OUR
MANUFACTURING CONTACTS TELL US THAT CRITICAL LEVELS ARE BEING
REACHED FOR PLASTIC FEEDSTOCKS, LIQUIFIED PETROLEUM GAS, ELECTRICAL
COMPONENTS, AND NUMEROUS CHEMICAL INGREDIENTS AND ADDITIVES.)
RETAIL SALES IN ALL PRODUCT AREAS ARE DOWN, AND TOURISM BOOKINGS ARE
OFF MASSIVELY DUE TO PRESS REPORTS OF THE FARM INVASIONS AND
VIOLENCE, AND THE FUEL SHORTAGE.
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18. (C) THE ZIMBABWE COUNCIL OF TRADE UNIONS ESTIMATES THAT THE
ECONOMIC SLOWDOWN HAS SO FAR THIS YEAR COST OVER 50,000 JOBS IN THE
FORMAL SECTOR ON EITHER A PERMANENT OR TEMPORARY BASIS. (THE LATTER
COVERS OPEN-ENDED LEAVE WHEN EMPLOYERS DO NOT FORMALLY LAYOFF THE
WORKER, OFTEN DUE TO THE SEVERANCE PACKAGE COSTS, EVEN THOUGH THE
PROSPECTS FOR A CALLBACK TO THE FACTORY OR PLANT ARE SLIM TO NONE.)
MANY LOCAL ECONOMISTS AND ANALYSTS ARE JUST NOW BEGINNING TO ACCEPT
THAT THIS YEAR'S GOVERNMENT BUDGET DEFICIT MAY EASILY BE A SHOCKING
20 PERCENT (PREDICTED IN REF B A MONTH AGO). WE ALSO RECOGNIZE THAT
THIS FIGURE COULD GROW, IF THE SLOWDOWN ACCELERATES AND GOVERNMENT
REVENUE COLLECTION SUFFERS FURTHER. (SOURCES IN THE FINANCE
MINISTRY TELL US THAT REVENUE COLLECTION IN THE FIRST QUARTER IS
DOWN AT LEAST 10 PERCENT FROM BUDGET.) INCREASED VIOLENCE BETWEEN
NOW AND THE ELECTION WILL ONLY ADD FUEL TO THE FIRE, INCREASING
EMIGRATION BY COMMERCIAL FARMERS AND URBAN PROFESSIONALS, AND
FURTHER ALIENATING THE WEST.

AN UNCERTAIN FUTURE

19. (C) MAKING DEFENSIBLE, USEFUL PREDICTIONS OF ZIMBABWE'S ECONOMIC
FUTURE IS AT THIS TIME NOT A USEFUL OR PRODUCTIVE TASK. WE KNOW
THAT THIS YEAR'S ECONOMIC RESULTS WILL BE WORSE THAN LAST YEAR'S,
BUT DETERMINING THE EXTENT OF THE DECLINE BEYOND THAT IDENTIFIED TO

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DATE WILL REQUIRE THE PASSAGE OF TIME AND THE UNFOLDING OF EVENTS. THIS IS BECAUSE WHAT HAPPENS IN THE RUN-UP TO AND AFTER THE ELECTIONS WILL HAVE SIGNIFICANT CONSEQUENCES, BOTH INTERNALLY AND IN TERMS OF ZIMBABWE'S RELATIONSHIP WITH WESTERN DONORS, INTERNATIONAL INSTITUTIONS AND THE REST OF THE WORLD. SOME OF THE WILD CARDS THAT HAVE TO EMERGE FROM THE DECK ARE:

RELATIONS WITH THE IMF AND WORLD BANK

THE ZANU-PF ELECTION MANIFESTO STATES THAT THE COUNTRY WILL NOT KNUCKLE UNDER TO DEMANDS MADE BY THESE LENDERS, DESPITE THE FACT THAT POST-ELECTION FINANCING NEEDS WILL BE HUGE. ON MAY 15 WE LEARNED THAT ZIMBABWE HAD PASSED THE 60 DAYS IN ARREARS MARK IN ITS PAYMENTS TO THE WORLD BANK, WHICH PLACES IT IN TECHNICAL DEFAULT. WE SUSPECT THAT THE COUNTRY'S LEADERSHIP WILL WANT TO RELY ON THE SHORT MEMORIES OF THE IFI'S, AND PLEAD FOR RELIEF AND GO THROUGH THE COMPLIANCE MOTIONS SHORTLY AFTER THE ELECTIONS, SWEEPING UNDER THE RUG THE VIOLENCE AND HUMAN RIGHTS ABUSES IT SPONSORED.

WESTERN DONORS

IN SIMILAR FASHION AND DEPENDING ON PRE- AND POST- ELECTION RESULTS AND BEHAVIOR BY THE GOVERNMENT, ZIMBABWE'S POSITION ON THE BILATERAL DONOR LOVE/HATE INDEX COULD RANGE FROM PARIAS TO DARLING. THE DEGREE AND EXTENT OF STATE-SPONSORED VIOLENCE, AND THE GOZ REACTION TO NON-STATE INSTITUTED VIOLENCE, WILL BE THE PRINCIPAL DETERMINING
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FACTORS FOR WESTERN NATIONS.

CURRENCY DEVALUATION

NOT IF, BUT WHEN AND BY HOW MUCH THE CURRENCY IS DEVALUED WILL HAVE A MAJOR IMPACT ON ZIMBABWE'S ECONOMIC FORTUNES AND RESULTS THIS YEAR. (HOWEVER, A SENIOR GOVERNMENT OFFICIAL TOLD US THIS WEEK THAT AT THE LAST CABINET MEETING THE GOVERNOR OF THE RESERVE BANK ARGUED FOR AN IMMEDIATE CONTROLLED DEVALUATION (VIA THE INTRODUCTION OF A 20 PERCENT TRADING BAND THAT WOULD SLIDE MONTHLY BY TWO TO FOUR PERCENT). THE IDEA WAS NIXED BY THE MINISTER OF INDUSTRY AND COMMERCE, NATHAN SHAMUYARIRA, WHO ARGUED THAT THE WHITE BUSINESS COMMUNITY WOULD FIND A WAY TO BOYCOTT THE DEVALUATION, AS THEY DID IN LATE '98 WHEN THE CURRENCY FELL BY HALF WITH NO CORRESPONDING EXPORT PICKUP.) WITH FOREIGN CURRENCY ARREARS BOTH PRIVATE AND PUBLIC ALREADY EXCEEDING ZIM \$19 BILLION (OR AT LEAST U.S. \$500 MILLION), ANY DEVALUATION WILL INCREASE THE DEBT LOAD PLACED ON A FALTERING ECONOMY AND MAKE INFLATION ALL THE HARDER TO BRING DOWN. HOWEVER, THE LACK OF A DEVALUATION HAS MADE THE MAJORITY OF EXPORTS UNPROFITABLE, AND IS A MAJOR FACTOR BEHIND THE HARD CURRENCY SHORTAGE WITH ALL ITS DEBILITATING EFFECTS.

THE GOVERNMENT'S POLICIES AND ACTIONS

ARGUABLY THE MOST IMPORTANT FACTOR IN ZIMBABWE'S ECONOMIC FUTURE IS WHAT ACTIONS AND POLICIES THE POST-ELECTION GOVERNMENT CHOOSES. AFTER WHAT WILL BE NEARLY SIX MONTHS OF DRIFT AND INATTENTION, TRIAGING THE ECONOMIC PATIENT SHOULD BE ONE OF THE HIGHEST PRIORITIES. THE LIST OF POTENTIAL ACTION AREAS IS LONG. IT
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INCLUDES CHOOSING TO PURSUE THE GOALS OF THE 18 MONTH MILLENIUM ECONOMIC RECOVERY PROGRAM, ACTING ON THE PRIVATIZATION OF PARASTATALS, RESURRECTION OF THE STALLED CORRUPTION DRIVE, ADDRESSING THE BUDGET DEFICIT, ENDING NOCZIM'S FUEL PROCUREMENT MONOPOLY AND HANDLING RELATIONS WITH THE MULTILATERAL LENDERS. ZIMBABWE'S RECORD OF ACHIEVEMENT IN EACH OF THESE AREAS, AT LEAST OVER THE LAST FEW YEARS, DOES NOT INSTILL WITHIN US AN OVERWHELMING SENSE OF CONFIDENCE IN THE NEAR TERM CORRECTIVE ACTIONS THE GOZ WILL TAKE.

COMMENT

110. (C) ZIMBABWE'S ECONOMIC PROBLEMS ARE GETTING WORSE WITH TIME. FROM WHAT WE HAVE SEEN, THE TURNAROUND PLAN OF THE OPPOSITION IS SOUND AND PRACTICAL. WHETHER IT WILL HAVE THE OPPORTUNITY TO IMPLEMENT ANY OF ITS PLAN AND FROM WHAT LEVEL OF STRENGTH IS NOT YET KNOWN. AS WE HAVE OFTEN STATED, DELAY ONLY INCREASES THE COSTS AND EFFORT REQUIRED TO GET BACK TO WHERE THE COUNTRY WAS ONLY A YEAR OR TWO AGO. ZIMBABWE SO FAR RETAINS SUBSTANTIAL CAPITAL, BOTH HUMAN AND ECONOMIC, WHICH IT CAN CALL ON TO REVERSE THE SLIDE, BUTTRESSED BY THE TOP-CLASS AND DEMONSTRATED RESILIENCY OF ITS INDUSTRY AND PRIVATE SECTOR. HOWEVER, THIS ACTION NEEDS TO COME SOONER RATHER THAN LATER, AND THE DAY AFTER THE ELECTIONS IS OUR RECOMMENDED LATEST START DATE. END COMMENT.

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